The Churchill Corporation Annual Report 1992

Churchill

"The long-term goal of The Churchill Corporation remains unchanged – to develop into an efficiently structured management company with a growing group of independent, profitable companies."

Corporate Profile

In 1981, a group of investors incorporated Churchill Development Corporation Ltd. (a closely-held private corporation) for the purpose of investing in mortgages and in the management and development of real estate projects. The name of the company was changed to The Churchill Corporation in July, 1985.

In 1987, The Churchill Corporation was merged with Churchill SBEC Limited and A.I.L.-Alberta Investments Ltd. On November 30, 1987, the merged companies were granted a listing on the Alberta Stock Exchange under the name of The Churchill Corporation.

Since that time, the scope of Churchill's portfolio of investments has expanded to include construction, real estate, high technology, manufacturing and service industries.

Subsidiaries

Churchill Resource Investments Inc.	100%
Insulation Holdings Inc.	80%
Maran Equipment Ltd.	100%
Stuart Olson Construction Ltd.	100%
Triton Projects Limited Partnership	80%

Affiliates

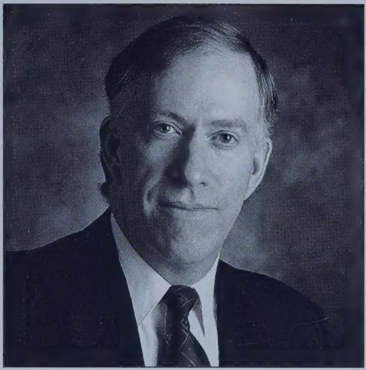
Lafrentz Road Services Ltd.	41%
Marlin Travel Limited Partnership	21%
Russell Technologies Inc.	45%
Shippers Supply Ltd.	35%
TCC Leasing Corporation	49%

Report to Shareholders

This annual report marks the third year of reporting management's three point plan in effecting a turnaround of The Churchill Corporation. Upon accepting this challenge in 1990, your new management embarked on a strategy to stabilize, restructure and achieve recovery. Stability and restructuring have been largely accomplished. Recovery progressed during 1992 but a depressed economy and difficult market conditions have slowed the positive impact of these efforts.

Consolidated revenues in 1992 were $237 million compared to $299 million in 1991. Despite the significant reduction in revenues, improved efficiencies saw the Company maintain its percentage gross margin in 1992 at 1991 levels. As a result of the revenues being down by $62 million, gross profits were $16 million in 1992 as compared to $21 million the previous year. Cost cutting measures, improved cash flow management, and lower interest rates contributed to offsetting savings of $2.8 million, but this was not sufficient to achieve bottom-line profitability.

The Consolidated Net Loss for the year ended December 31, 1992 was $2.2 million as compared to a profit of $287,000 for 1991. On a basic and fully diluted basis, this resulted in a loss of $0.33 per share in 1992 compared to a loss of $0.06 per share in 1991. The basic and fully diluted value reflects the adjustment for unpaid preferred share dividends of $920,000 in each of 1992 and 1991.



H.R. (Hank) Reid, President and C.E.O.

"Our primary market focus continues to be the construction business and related service industries."

The Churchill Corporation's main source of revenues and greatest potential source of profits is its construction group. Operating profits of $1.9 million were achieved in construction in 1992, with percentage margins being similar to the previous year. However, with revenues falling over 20% during 1992, the contribution from this group was $2.8 million less than in 1991.

Real Estate operations posted an operating profit of $392,000 in 1992 but the return from this activity is not at an acceptable level relative to the Company's investment. The greatest opportunity for real estate profit lies in the continued development of the 50% owned Lewis Estates residential community and golf course in west Edmonton. Other real estate holdings have been identified for divestiture and are being upgraded to enhance profitable sale.

The equipment sales and service subsidiary had another difficult year in 1991, recording an operating loss of $357,000. Recently introduced new management has embarked on a process of consolidation and re-direction. Branch offices have been consolidated and progress made in disposing surplus assets. Emphasis is toward increasing the contribution made by all of the subsidiary's operations through improved margins rather than increased volumes. Greater activity levels are expected in 1993 through improved communications with customers, manufacturers and employees.

Churchill's successful affiliated companies in its equity investment portfolio were overshadowed by those undergoing change in 1992, resulting in a loss of $477,000 for the group as a whole. The fundamental strength of the companies remaining in this portfolio was clouded in 1992 by the costs of re-organizing Marlin Travel and by losses incurred in the termination of business at Cameron-McIndoo Interiors Limited.

The cessation of business at Krahn's Homemade Style Dressings Ltd. was a significant contributor to the loss of $778,000 noted in the 'Other' category in the Segmented Information in Note 18 that accompanies the financial statements.

The restructuring process instituted in all operating divisions of Churchill was similarly continued at Churchill Corporation itself during 1992. The head office was downsized and relocated with an expected reduction in occupancy costs of over 50%.

The long-term goal of The Churchill Corporation remains unchanged – to develop into an efficiently structured management company with a growing group of independent, profitable companies. Our primary market focus continues to be the construction business and related service industries. Achieving these objectives will result from continued improvements in the operational performance of each company which holds significant promise, and from divesting Churchill of those companies that do not. Action is being taken to sell non-productive assets, particularly in real estate, which will contribute greatly to the retirement of Churchill's debt. At $2.3 million in 1992, interest expense on this debt continues to burden the Company and represents the sole largest contributor to Churchill's loss. With the exception of Lewis Estates, the Company will not be retaining real estate as a long term asset.

The senior management of two major subsidiary companies was strengthened in 1992 with the appointment of Mr. E. Miller MacKinnon as President of Stuart Olson Construction Ltd. and Mr. Stan Rust as President of Maran Equipment Ltd.

"Actions taken during 1992 should enable the company in the future to be profitable at lower levels of revenue."

In view of the losses incurred in 1992, your Board of Directors has concluded that the Company remains unable to pay the outstanding cumulative dividends on preferred shares. The cumulative dividends remain unpaid in the amount of $2,300,000 as at December 31, 1992. The preferred share dividends have now been unpaid for two calendar years, thereby resulting in voting rights being bestowed to preferred shareholders on the basis of one vote per share. In consequence, a single shareholder now controls over 50% of the voting rights in Churchill. Management is appreciative of the controlling shareholder's continued support during these difficult times.

In November, Mr. Lyle J. Wilson retired from his position of Vice President Finance and Corporate Secretary of Churchill. We shall miss his wise counsel but wish him well in retirement.

Since the last Annual Meeting the Board of Directors accepted, with regret, the resignation of Mr. R. V. Lloyd, Q.C. as Chairman and Mr. D. D. Schuster as Director of The Churchill Corporation. Mr. Lloyd's resignation was necessary to remove the potential of a conflict of interest arising out of a lawsuit involving an affiliated company and a client of Mr. Lloyd's law firm. Mr. Schuster changed his employment status in February, 1993 and resigned his associated board positions in order to devote his full efforts to starting a new venture. We would like to thank both Mr. Lloyd and Mr. Schuster for their dedication and invaluable contribution as directors of our Company. Mr. S. K. Hooper has assumed Mr. Lloyd's role as Chairman.

The management of your Company acknowledges the value of our employees' contributions to this process of rebuilding Churchill, and thank them for their efforts and commitment.

H. R. (Hank) Reid
President and Chief Executive Officer

Management Discussion and Analysis

Introduction

The Churchill Corporation commenced operation in 1981 as a property development company. Initially, Churchill's business objectives were to acquire and manage commercial real estate investments.

In the early '80s the government of the Province of Alberta enacted the Small Business Equity Corporations Act for the purpose of providing a source of equity funds for small business in Alberta. Investors were offered certain tax credits as an incentive to provide these funds. Churchill established SBEC Holdings Ltd. as the corporate recipient of the investment funds and, over the ensuing 10 year period, minority interests were acquired in both manufacturing and service industries.

On December 31, 1988, Churchill acquired Stuart Olson Construction Ltd. Included in the purchase were ownership interests in a steel fabrication business, an industrial insulation contractor, a construction equipment distributor and a company whose principal business was marking lines on streets and highways.

As a result of Churchill's investment activities, the Company's main source of revenue now is from construction (94%) with equipment sales a distant second (5%). Revenue from real estate, equity investments and other sources make up the remainder (1%).

Economic Environment

The Churchill Corporation has business interests in Alberta, British Columbia and Saskatchewan.

The economy in both Alberta and Saskatchewan has been in a decline throughout 1992. Both provincial governments are in the process of dealing with significant deficits, with the result that many projects and capital expenditures normally supported by government funding have been delayed or cancelled.

"Triton Projects Limited Partnership had an excellent year."

Economic activity in British Columbia is the bright spot in western Canada. Stuart Olson Construction Ltd. has a large branch office in Vancouver and is benefiting from the sustained construction activity in that province.

Despite the construction activity in British Columbia, the lack of major construction projects in Alberta and Saskatchewan in 1992 has resulted in lower volumes and lower profits.

1992 Operations

The Consolidated Statement of Income of The Churchill Corporation for 1992 reflects the impact of both the internal restructuring which occurred and the recessionary markets which prevailed during the year.

Of the $2.2 million in losses, over $1.8 million were of a non-recurring nature due to the right-sizing process and the divestiture of unprofitable assets. While these actions reflect unfavourably on 1992 results, the company is better positioned for a profitable 1993.

The decline in revenue of $62 million between 1991 and 1992 was almost entirely from construction operations and resulted in gross profits being $4 million less than the previous year. Actions taken during 1992 should enable the Company in the future to be profitable at lower levels of revenue.

Construction

The construction group operates throughout western Canada and consists of the following subsidiaries:

- Stuart Olson Construction Ltd., a commercial building contractor
- Triton Projects Limited Partnership, an oilfield and pipeline mechanical contractor
- Insulation Holdings Inc., an insulation and asbestos removal contractor

Stuart Olson Construction Ltd. is the largest company in the group. This company operates in an industry sector which experienced lower activity levels and severe competition in 1992.

Stuart Olson successfully completed several major projects during the year, demonstrating the breadth of the company's capabilities and its capacity for quality construction. Spring, 1992 marked the substantial completion of Stuart Olson's $40 million contract for construction of building structures for the Saskferco Fertilizer complex in southern Saskatchewan. In early 1992, Stuart Olson completed the 27-storey 1000 Beach condominium project, one of the most luxurious in the City of Vancouver. This was followed by the November, 1992 completion of the $40 million Edmonton City Hall, with its distinctive twin pyramid roof design. Late in 1992, construction was nearing completion of the $30 million Burnaby 2000 school, the most advanced secondary institution constructed in British Columbia. Stuart Olson's management expects the highly competitive bidding environment in Alberta to continue into 1993, limiting potential gains in revenues from that province. However, the company expects to capitalize on the very positive construction prospects in British Columbia and has an appreciable backlog of profitable work carrying over into 1993.

"Lafrentz Road Services made a successful penetration into the Quebec market."

Triton Projects Limited Partnership had an excellent year, with both increased revenues and profits. Major projects under construction during the 1992 year included: a compressor station expansion at Hussar, Alberta for Nova Corporation; two field compressor stations at Caroline, Alberta for Shell Canada Limited; and mechanical modifications at the Farrell Lake Plant for Nova Corporation. The outlook for 1993 suggests a very competitive market in the energy sector construction business, especially in the first two quarters. However, the third and fourth quarters should show a marked improvement in available work. Profit margins are expected to be under pressure at the start of the year with an improving trend as the year progresses.

During 1992, Insulation Holdings Inc. successfully completed an insulation contract in excess of $8 million at the Saskferco Fertilizer Plant in southern Saskatchewan. Although business was very competitive during 1992, Insulation Holdings was able to expand its customer base, particularly in the material supply business. This company's carry-over of work into 1993 exceeded normal levels.

Real Estate

Churchill's revenue from real estate is derived primarily from its 50% interest in the Lewis Estates residential community and golf course, and two wholly owned strip malls in Edmonton. The Company also has a mixed portfolio of properties held for future development.

A further 68 single family lots were serviced at Lewis Estates in 1992, along with a 2.5 acre commercial site. Construction of the front-nine of the golf course was completed in the fall in anticipation of an early summer 1993 opening. During the year, sales included

103 lots, a four acre multi-family site, and a two acre residential parcel. Plans are under way for a third home parade and the start in 1993 of our second community, Breckenridge Greens. The first phase of 85 lots in Breckenridge Greens will be available in mid to late 1993.

With the exception of Lewis Estates, most of Churchill's real estate investments are targeted for timely disposal. In view of the depressed real estate markets, management is concentrating its efforts on enhancing values through improved tenancies and upgraded development status. During 1992, the Company sold a parcel of commercial land in Edmonton and the remainder of its condominiums in Phoenix.

Equipment Sales and Service

Revenue at Maran Equipment Ltd. declined by 5% in 1992, with the greatest reduction being experienced in the municipal section of the equipment market. Continued pressure on sales margins along with a write down of inventories to net realizable value were the main contributors to Maran's 1992 losses. In addition, there were some non-recurring expenses related to the downsizing of the Calgary branch operation absorbed in 1992.

Equity Investments

Churchill's affiliated companies had mixed results in 1992.

"Stuart Olson completed the $40 million Edmonton City Hall."

Marlin Travel successfully re-organized its business, following the company's unsuccessful bid to renew its Government of Canada contract in late 1991. However, the problems in the Canadian travel industry have frustrated the company's efforts to return to previous profit levels.

Lafrentz Road Services Ltd., Russell Technologies Inc. and Shippers Supply Ltd. all had profitable years. Lafrentz Road Services made a successful penetration into the Quebec market in 1992 and is now a dominant player. Russell Technologies continues to be a leader in technology development in the non-destructive testing field. Its Ferroscope Model 204 was introduced in the fall of 1992 and orders have been received from customers around the world.

Affiliate companies in Churchill's equity investment portfolio, Cameron-McIndoo Interiors Limited and Krahn's Homemade Style Dressings Ltd., did not offer prospects of regaining profitability and ceased business in 1992. Churchill's 1992 results reflect adequate provisions for these closures.

Liquidity

The Company's working capital position at December 31, 1992 is largely unchanged from year-end 1991.

The reduction in Accounts Receivable, Accounts Payable and Contract Advances reflected substantially lower levels of construction activity in December, 1992 compared to the same period in 1991. The efforts to reduce investments in 1992 are reflected in lower balances for Inventories, Properties for Sale, Corporate Investments, and Property and Equipment.

The Company's outstanding borrowings were higher at December 31, 1992 by $5.5 million primarily due to new requirements to segregate construction funds for projects in British Columbia and Saskatchewan. After adjustment for the $6.4 million cash deposit created by this requirement, Churchill's effective

1992 year-end debt position is a $0.9 million improvement over December 31, 1991. The sale of surplus assets generated $1.2 million in cash during 1992. In view of the Company's tight liquidity position and debt levels, the program of surplus asset disposal and debt reduction remains a top priority.

Voting Priority

Reference is made in the Report to Shareholders of the decision of the directors to defer payment of the dividend on the outstanding preferred shares. Since the dividends have been unpaid for two calendar years, company articles have automatically attached voting rights to the preferred shares on the basis of one vote per preferred share.

"Insulation Holdings was able to expand its customer base."

Prior Period Adjustment

As a result of income tax reassessments of a subsidiary applicable to the years 1988 and prior, the deficit as at December 31, 1991 and December 31, 1992 has been increased by $711,000.

Management Report

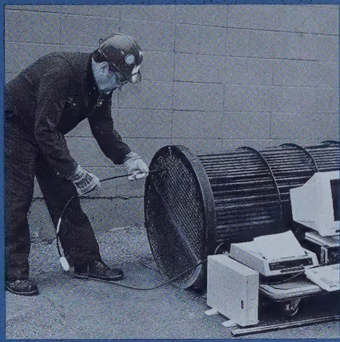
Management is responsible for the preparation of the accompanying consolidated financial statements of the Company in accordance with generally accepted accounting principles, and for other financial and operating information, which information is consistent with the financial statements presented in this annual report. Systems of internal control are maintained by the Company to provide reasonable assurance of the completeness and accuracy of the financial information. These systems include the delegation of authority and segregation of responsibilities among qualified personnel in accordance with operating and financial policies and procedures. The Board of Directors appoints an Audit Committee which meets periodically with representatives of the Company's financial department and the Company's independent auditors. The committee reviews the Company's accounting policies and the scope and the results of the independent auditors' examination of the Company's financial statements. The independent auditors, who are appointed by the shareholders, examine and report on the financial statements of the Company in accordance with generally accepted auditing standards. The auditors' report to the shareholders of the Company follows. The consolidated financial statements in the annual report have been reviewed and approved by the Board of Directors and the Audit Committee.

H.R. (Hank) Reid
President and
Chief Executive Officer

J.B. Whitmore, C.A.
Controller

March 18, 1993

Auditors' Report

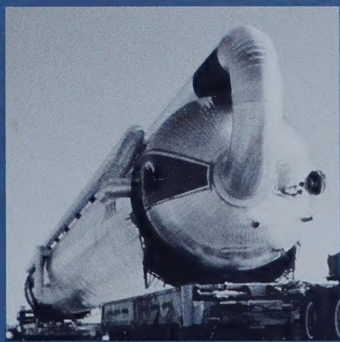


To the Shareholders of The Churchill Corporation

We have examined the consolidated balance sheets of The Churchill Corporation as at December 31, 1992 and 1991 and the consolidated statements of (loss) income, deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1992 and 1991 and the results of its operations and changes in its financial position for the years then ended in accordance with generally accepted accounting principles.



Deloitte & Touche

Chartered Accountants
Edmonton, Alberta
March 18, 1993

Consolidated Balance Sheets

December 31, 1992

	(in thousands)	1992	1991 (Restated- Note 2)
ASSETS	Current Assets		
	Cash and Term Deposits (Note 3)	**$ 11,238**	$ 4,544
	Accounts Receivable	**36,741**	54,157
	Inventories and Prepaid Expenses	**7,470**	8,878
	Properties for Sale (Note 4)	**10,639**	12,011
	Current Portion of Agreements Receivable (Note 5)	**791**	715
		66,879	80,305
	Agreements Receivable and Other (Note 5)	**398**	488
	Corporate Investments (Note 6)	**7,140**	9,196
	Property and Equipment (Note 7)	**8,289**	9,534
	Properties under Development (Note 8)	**9,999**	9,248
	Goodwill	**528**	559
		$ 93,233	$ 109,330
LIABILITIES	Current Liabilities		
	Bank Indebtedness (Note 9)	**$ 17,248**	$ 10,449
	Accounts Payable	**32,030**	48,338
	Contract Advances and Unearned Income	**6,525**	9,656
	Provision for Future Development Costs (Note 8)	**1,229**	1,148
	Deferred Income Taxes (Note 10)	**1,129**	1,035
	Current Portion of Long-Term Debt (Note 11)	**7,169**	8,792
		65,330	79,418
	Long-Term Debt (Note 11)	**14,295**	13,955
	Deferred Income Taxes (Note 10)	**36**	36
	Minority Interest	**967**	1,164
		80,628	94,573
	Contingencies and Commitments (Notes 16 and 17)		
SHAREHOLDERS' EQUITY	Shareholders' Equity (Note 12)	**12,605**	14,757
		$ 93,233	$ 109,330

Approved by the Board:

Director

Director

Consolidated Statements of (Loss) Income

Year Ended December 31, 1992

(in thousands)	1992	1991
Revenue	$ 236,636	$ 298,659
Direct Costs	220,749	277,714
	15,887	20,945
Other Income (Note 13)	477	847
	16,364	21,792
Indirect and Administrative Expenses	15,684	17,695
Net Operating Income	680	4,097
Interest Expense	(2,292)	(3,123)
Provision for Income Taxes (Note 10)	—	(245)
Minority Interest	(540)	(442)
Net (Loss) Income	$ (2,152)	$ 287
Basic And Fully Diluted Loss Per Common Share (Note 14)	$ (.33)	$ (.06)

Consolidated Statements of Deficit

Year Ended December 31, 1992

(in thousands)	1992	1991 (Restated - Note 2)
Deficit, Beginning of Year as Previously Reported	$ (16,980)	$ (17,267)
Adjustments of Prior Years' Income Taxes (Note 2)	(711)	(711)
Deficit, Beginning of Year as Restated	(17,691)	(17,978)
Net (Loss) Income	(2,152)	287
Deficit, End of Year	$ (19,843)	$ (17,691)

Consolidated Statements of Changes in Financial Position

Year Ended December 31, 1992

	(in thousands)	1992	1991
OPERATING ACTIVITIES	Net (Loss) Income	$ (2,152)	$ 287
	Add (deduct) non-cash items		
	Net equity loss	519	326
	Depreciation, depletion and goodwill amortization	1,538	1,932
	Gain on sale of assets	(85)	(186)
	Change in minority interest	(197)	642
	Net change in accounts receivable, inventories and prepaid expenses	18,824	12,034
	Net change in accounts payable, contract advances and unearned income	(19,439)	(7,168)
	Change in deferred income taxes	94	34
	Cash (used in) provided by operating activities	(898)	7,901
INVESTMENT ACTIVITIES	Proceeds on sale of assets	999	2,081
	Proceeds on sale of corporate investments	2,998	—
	Principal payments of agreements receivable	254	2,054
	Advances on agreements receivable	(240)	(2,130)
	Additions to corporate investments	(1,496)	(647)
	Additions to assets	(531)	(5,037)
	Increase in provision for future development costs	81	1,148
	Purchased goodwill	—	(87)
	Other	11	92
	Cash provided by (used in) investing activities	2,076	(2,526)
FINANCING ACTIVITIES	Increase (decrease) in bank indebtedness	6,799	(5,065)
	Issuance of long-term debt	824	7,162
	Long-term debt repayment	(2,107)	(6,463)
	Cash provided by (used in) financing activities	5,516	(4,366)
	Increase In Cash	6,694	1,009
	Cash, Beginning Of Year	4,544	3,535
	Cash, End Of Year	$ 11,238	$ 4,544

Notes to the Consolidated Financial Statements

December 31, 1992

1. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada, and reflect the following policies:

Consolidation

The consolidated financial statements include the accounts of the subsidiaries, the limited partnership and the company's proportionate share of the assets, liabilities, income and expense of the joint venture as follows:

Stuart Olson Construction Ltd. (100%)
Maran Equipment Ltd. (100%)
Insulation Holdings Inc. (80%)
Triton Construction Inc. (80%)
Triton Projects Limited Partnership (80%)
Krahn's Homemade Style Dressings Ltd. (80%)
394856 Alberta Inc. (previously Camsteel Fabricators Inc.) (100%)
SBEC Holdings Ltd. (100%)
Churchill Resource Investments Inc. (100%)
TMC Payroll Ltd. (100%)
Insulation Contracting Specialties Inc. (100%)
The Extra Equity Corporation (50%)

Inventories

Inventories are recorded at the lower of cost and net realizable value.

Corporate Investments

Corporate investments include significant equity interests in operating companies. These interests, where Churchill has significant influence, are accounted for on the equity basis. Where the investee's year end precedes December 31, the company's share of earnings is determined up to the investee's year end, adjusted for the impact of any significant subsequent results.

Real Estate

Properties under development are recorded at the lower of cost and net realizable value.

Carrying costs, including property taxes, interest on debt and administrative expenses, are capitalized on properties under development during construction and on properties held for development. Rental losses during a reasonable lease-up period are capitalized on newly developed properties. Such costs are capitalized only if the resultant carrying value does not exceed estimated net realizable value.

Properties for sale are recorded at the lower of cost and net realizable value.

Leasing costs on commercial properties are capitalized and amortized over the lease period.

Income from the sale of properties is recognized when the company has fulfilled all material conditions and has received a down payment that is appropriate in the circumstances.

Depreciation on revenue producing commercial buildings and improvements is provided on a 5% sinking fund basis over periods from 25 to 50 years (Note 4).

Property and Equipment

Property and equipment are recorded at cost. Buildings, vehicles, furniture, fixtures and equipment are depreciated using both the diminishing-balance and straight-line methods at the rates indicated in Note 7.

Contract Income

Revenue from construction contracts is recognized on the percentage of completion basis. The percentage of completion is determined by relating the actual cost of work performed to date to the current estimated total cost for each contract. Any projected loss is recognized immediately.

Goodwill

Goodwill is calculated as the excess purchase price paid on the acquisition of subsidiary and affiliated companies over the value assigned to identifiable net assets acquired and is being amortized on a straight-line basis over periods not exceeding 20 years.

2. Adjustment of Prior Years' Income Taxes

As a result of income tax reassessments of a subsidiary applicable to 1988 and prior taxation years, income taxes payable of the subsidiary have increased by $711,000. This has resulted in an increase in current liabilities, long-term debt and deficit of $96,000, $615,000 and $711,000 respectively.

3. Cash and Term Deposits

As at December 31, 1992 cash and term deposits include $6,436,635 held in regard to specific construction projects. This cash is restricted to the payment of direct costs relating to these projects. As at December 31, 1991 cash and term deposits include $2,342,978 held by a subsidiary registered under the Small Business Equity Corporations Act (Alberta). The use of these funds was restricted until June 1992 when the applicable provisions of the Act expired.

4. Properties for Sale

(in thousands)

	1992			1991
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Revenue Producing				
Commercial	$ 4,324	$ 260	$ 4,064	$ 4,082
Residential	4,156	—	4,156	5,056
	8,480	260	8,220	9,138
Non-Revenue Producing				
Undeveloped	7,112	—	7,112	7,566
	$ 15,592	$ 260	15,332	16,704
Less Cumulative Valuation Adjustment			(4,693)	(4,693)
			$ 10,639	$ 12,011

5. Agreements Receivable and Other

(in thousands)

	1992	1991
Mortgages, loans and agreements		
Non-interest bearing	$ 739	$ 665
Interest at 6%-9%	316	217
Interest at 9.5%-15% (1991 - 9.5%-16%)	223	356
Allowance for doubtful accounts	(105)	(105)
Deferred charges	16	67
Other	—	3
	1,189	1,203
Less current portion	(791)	(715)
	$ 398	$ 488

6. Corporate Investments
(in thousands)

	1992	1991
Equity investments		
Debentures – 12% - 15% interest rates	$ —	$ 51
Preferred shares – up to 10% dividend rates	2,010	3,560
Net equity	3,469	3,695
	5,479	7,306
Marketable securities		
At lower of cost or net realizable value	247	454
Oil and gas interests, net of depletion of $439,800 (1991 - $371,206)	1,414	1,436
	$ 7,140	$ 9,196

Unamortized goodwill included in equity investments amounted to $428,652 (1991 - $469,690). Preferred shares have cumulative dividend rights and are redeemable from profits of the investees. Preferred dividends in arrears, which have not been recognized in the accounts, amounted to $176,425 (1991 - $218,025).

7. Property and Equipment
(in thousands)

	1992			1991	
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value	Depreciation Rates
Vehicles	$ 353	$ 233	$ 120	$ 128	30%-33⅓%
Plant and equipment	7,643	4,879	2,764	3,471	5%-30%
Furniture and fixtures	662	415	247	334	10%-30%
Buildings and improvements	3,869	1,159	2,710	2,910	4%-20%
Rental equipment	806	179	627	870	12%
Land	1,821	—	1,821	1,821	
	$ 15,154	$ 6,865	$ 8,289	$ 9,534	

8. Properties Under Development
(in thousands)

Included in property under development is the company's 50% interest in The Extra Equity Corporation (Lewis Estates), an 800 acre residential land development in west Edmonton. This investment has been accounted for using the proportionate consolidation method whereby 50% of the assets and the liabilities of the development are included in the accounts as shown below:

	1992	1991
Cash	$ 102	$ 47
Accounts receivable	670	753
Fixed assets	42	—
Land:		
Under development	10,278	9,528
Held for resale	4,156	5,056
	$ 15,248	$ 15,384
Accounts payable	$ 173	$ 605
Provision for future development costs	1,229	1,148
Unearned income	—	75
Current portion of long-term debt	4,372	4,791
Long-term debt	9,413	8,682
Retained earnings	61	83
	$ 15,248	$ 15,384

8. Properties Under Development
(continued)

Interest capitalized to development properties during the year amounted to $918,665 (1991 -$1,252,847).

Land held for resale also includes the total estimated costs yet to be incurred for servicing and development. These costs are accrued and shown separately as a provision for future development costs.

The bankers for the joint venture have issued $1,518,000 (1991-$1,854,000) of letters of credit on behalf of the joint venture. These letters of credit are secured by the property of the joint venture. In addition, the Corporation provided a $500,000 limited guarantee to the joint venture.

9. Bank Indebtedness

Bank indebtedness is secured by floating charge debentures, general assignments of book debts and by the pledging of specific assets.

10. Income Taxes
(in thousands)

The income tax provision consists of:

	1992	1991
Current (Recovery) Provision	$ (94)	$ 210
Deferred	94	35
	$ —	$ 245

Deferred income taxes result primarily from a subsidiary's deduction for income tax purposes of accounts and holdbacks receivable not due until the following year.

The consolidated group has accumulated non-capital losses for income tax purposes of $12,251,000 which may be carried forward and used to reduce taxable income in future years. If not utilized, these losses will expire as follows:

1995	27
1996	1,577
1997	5,438
1998	2,824
1999	2,385
	$ 12,251

Recognition has been made in these financial statements of $4,160,000 of the above tax losses carried forward through the reduction of a deferred income tax liability.

11. Long-Term Debt
(in thousands)

	1992	1991
Bank loans (Prime – .5% to Prime + 2%; 7.6% to 9.5%)	$ 12,074	$ 12,563
Mortgages (9% to 12.75%) (1991: 10.9% to 13.8%)	2,547	2,612
Agreements Payable (Prime + 1.25% to 2%) (1991: Prime + 1% to 2%)	2,882	3,254
Promissory Note	2,650	2,650
Unsecured loan payable	711	711
Equipment Financing (Prime + .25% to 2.50%; 5% to 17%) (1991: Prime + .75% to 1.75%)	600	957
	21,464	22,747
Less current portion	(7,169)	(8,792)
Long-term debt	$ 14,295	$ 13,955

11. Long-Term Debt
(continued)

Bank loans are payable on demand and are secured by floating charge debentures, assignment of book debts and assignment of a term deposit.

Mortgages are secured against specific rental properties.

The promissory note bears interest, payable semi-annually, at rates of 9%, 10% and 11% in the years 1992, 1993, 1994 respectively, and is due December 31, 1994. The promissory note is in priority to all unsecured obligations of Churchill.

The unsecured loan payable represents the settlement of prior years' income taxes previously under appeal discounted at a rate of 9%. The debt is due in quarterly instalments of $33,250 in 1994, $66,500 in 1995 and $99,750 in 1996.

Interest cost on long-term debt during the year was $870,713 (1991 - $1,208,761).

Estimated principal amounts due in each of the next five years are as follows:

1993	7,169
1994	7,825
1995	4,251
1996	791
1997	1,255

12. Shareholders' Equity
(in thousands)

	1992	1991 (Restated- Note 2)
Share capital	**$ 32,448**	$ 32,448
Deficit	**(19,843)**	(17,691)
	$ 12,605	$ 14,757

Share capital
Authorized

6,500,000	Series A 8% cumulative redeemable first preferred shares. Redemption, at $ 1.00 per share, is based on 20% of net cash flow beginning in 1992 with full redemption by December 31, 1995
1,923,077	Series A 8% cumulative redeemable second preferred shares redeemable at $2.60 per share on December 31, 1997
3,500,000	First preferred shares issuable in series with rights set by the directors
8,076,923	Second preferred shares issuable in series with rights set by the directors
110,000,000	Class A common shares

12. Shareholders' Equity
(continued)

Issued

	1992			
	Shares	Share Capital	Contributed Surplus	Total
Series A 8% cumulative first preferred shares	6,500,000	$ 6,500	$ —	$ 6,500
Series A 8% cumulative second preferred shares	1,923,077	5,000	—	5,000
Total preferred shares		11,500	—	11,500
Class A common shares Issued, beginning of year	9,380,265	13,720	8,228	21,948
Less Shares cancelled by agreement	(3,000)	(4)	4	—
Class A common shares Issued, end of year	9,377,265	13,716	8,232	21,948
Less Issued shares held by affiliate	(200,000)	(200)	(800)	(1,000)
Total common shares	9,177,265	13,516	7,432	20,948
		$ 25,016	$ 7,432	$ 32,448

Issued

	1991			
	Shares	Share Capital	Contributed Surplus	Total
Series A 8% cumulative first preferred shares	6,500,000	$ 6,500	$ —	$ 6,500
Series A 8% cumulative second preferred shares	1,923,077	5,000	—	5,000
Total preferred shares		11,500	—	11,500
Class A common shares Issued, beginning of year	12,652,519	20,703	6,245	26,948
Less Shares cancelled by agreement	(1,349,177)	(1,983)	1,983	—
Shares returned in exchange for loan cancellation	(1,923,077)	(5,000)	—	(5,000)
Class A common shares Issued, end of year	9,380,265	13,720	8,228	21,948
Less Issued shares held by affiliate	(200,000)	(200)	(800)	(1,000)
Total common shares	9,180,265	13,520	7,428	20,948
		$ 25,020	$ 7,428	$ 32,448

Shares Cancelled

In 1992, 3,000 Class A common shares of the Company were submitted for cancellation fulfilling the terms of the Company's redemption of a convertible debenture in 1991.

In 1991, a shareholder submitted 1,349,177 Class A common shares of the company for cancellation to fulfil the terms of an undertaking to underwrite losses of the construction group, which was acquired in December 1988. Also in 1991, as part of the exchange for Stuart Olson Construction Ltd., Churchill provided a $5,000,000 loan to 393738 Alberta Ltd., which was used to acquire 1,923,077 Class A common shares of Churchill at that value. These shares were returned in 1991 in exchange for cancellation of the loan.

Options and Conversion Rights

Rights to acquire 4,613,347 (1991 - 5,738,745) Class A common shares are outstanding at prices ranging from $2.56 to $3.60 (1991 - $2.56 to $3.60) exercisable December 31, 1992 through to December 31, 1997.

In addition the company has granted an officer options to purchase up to 200,000 Class A common shares at $0.35 to $1.00 exercisable to November 30, 1996.

The company has the right to cause a preferred shareholder to convert up to $1,500,000 of the Series A first preferred shares into common shares at a price ranging from $ 2.60 to $ 3.60 per share if the average trading price of the common shares exceeds the conversion price by 30% for twenty consecutive trading days.

Preferred Shares

The fixed cumulative dividends on first and second preferred shares remain unpaid for the period September 30, 1990 to December 31, 1992 and total $2,300,000 (1991 - $1,380,000). The Articles of the Company provide that in the event dividends remain unpaid for any reason on preferred shares for two calendar years then such preferred shares become voting shares on the basis of one vote per share and such shares continue to have voting rights attached to them until all dividends remaining unpaid have been paid. All the preferred shares are held by two shareholders and are now voting shares.

13. Other Income

(in thousands)

	1992	1991
Other income consists of:		
Interest income	$ 394	$ 791
Equity loss	(519)	(326)
Dividends	87	—
Amortization of affiliates' goodwill	(45)	(46)
Oil and gas	160	213
Sundry	12	31
Management fees	388	184
	$ 477	$ 847

14. Loss Per Common Share

(in thousands)

	1992	1991
Net (loss) income	$ (2,152)	$ 287
Current year preferred dividends in arrears	(920)	(920)
	$ (3,072)	$ (633)
Weighted average of common shares outstanding	9,179	10,192
Loss per common share	$ (.33)	$ (.06)

15. Related Party Transactions
(in thousands)

The following balances were outstanding or transactions occurred with affiliated companies, directors and their controlled companies.

	1992	1991
Amounts Receivable	$ 175	$ 991
Accounts Payable	$ 234	$ —
Management and Advisory Fees	$ 388	$ 184

The above amounts arise in the normal course of business and are on terms similar to transactions with non-related parties.

16. Contingencies

(a) A subsidiary of the Company submitted a claim for $1,156,000 to a customer for work that the Company completed beyond the original scope of the related contract. This claim has not been recorded as revenue in 1992. Upon settlement, any proceeds less realization costs will be taken into income in the year settlement occurs. As at the date of the Auditors' Report, management is unable to estimate the outcome of the claim.

(b) The Company and its subsidiaries are defendants in lawsuits involving various amounts. Management is of the opinion that the results of these actions should not have any material effect on the financial position of the Company. Any awards or settlements will be reflected in income as the matters are resolved.

17. Commitments
(in thousands)

The company leases certain equipment, vehicles and office premises. Under existing terms of the leases, future minimum lease payments over the next five years are:

1993	$ 837
1994	617
1995	464
1996	421
1997	392

18. Segmented Information
(in thousands)

1992	Construction	Real Estate	Equipment Sales & Service	Equity Investments	Other	Consolidated
Revenue (Loss)	$ 221,301	$ 4,216	$ 11,439	$ (477)	$ 157	$ 236,636
Direct Costs	207,397	3,598	9,620	—	134	220,749
	13,904	618	1,819	(477)	23	15,887
Other Income	—	—	—	—	477	477
	13,904	618	1,819	(477)	500	16,364
Indirect and Administration	12,004	226	2,176	—	1,278	15,684
Net operating income (loss)	$ 1,900	$ 392	$ (357)	$ (477)	$ (778)	680
Unallocated interest						(2,292)
Minority Interest						(540)
Net Loss						$ (2,152)
Assets	$ 50,286	$ 24,337	$ 5,291	$ 5,726	$ 7,593	$ 93,233

December 31, 1992

18. Segmented Information
(continued)

	1991					
	Construction	Real Estate	Equipment Sales & Service	Equity Investments	Other	Consolidated
Revenue (Loss)	$ 281,650	$ 4,101	$ 12,085	$ (372)	$ 1,195	$ 298,659
Direct Costs	263,563	3,297	9,868	—	986	277,714
	18,087	804	2,217	(372)	209	20,945
Other Income	—	—	—	—	847	847
	18,087	804	2,217	(372)	1,056	21,792
Indirect and Administration	13,423	(66)	2,347	—	1,991	17,695
Net operating income (loss)	$ 4,664	$ 870	$ (130)	$ (372)	$ (935)	4,097
Unallocated interest						(3,123)
Provision for Income Taxes						(245)
Minority Interest						(442)
Net Income						$ 287
Assets	$ 62,820	$ 25,040	$ 5,661	$ 7,759	$ 8,050	$ 109,330

19. Comparative Figures

Certain of the comparative figures have been reclassified to conform to the current years presentation.

Corporate Directory

Board of Directors

Mary Cameron

Stanton K. Hooper

Donald E. Johnson

Robert V. Lloyd, Q.C.**

William R. McKenzie

H.R. (Hank) Reid

John L. Schlosser*

David D. Schuster**

* Not standing for re-election
** Retired from Board since Annual Meeting

Officers

Stanton K. Hooper,
Chairman

H.R. (Hank) Reid
President and
Chief Executive Officer and
Chief Financial Officer

Lynn A. Patrick
Vice President and Corporate
Counsel and Corporate Secretary

J.B. (Brad) Whitmore, C.A.
Controller

Annual General Meeting

The Annual General Meeting of Shareholders will be held at 9:00 a.m., Thursday, May 20, 1993
The Westin Hotel
10135 - 100 Street
Edmonton, Alberta

Legal Counsel

Ogilvie & Company

Milner Fenerty

Cook Duke Cox

Auditors

Deloitte & Touche

Transfer Agent

The R-M Trust Company
600 The Dome Tower
333 - 7th Avenue S.W.
CALGARY, Alberta
T2P 2Z1

Bankers

Alberta Treasury Branch

Barclays Bank of Canada

Canadian Imperial Bank of Commerce

Exchange Listing

Alberta Stock Exchange
Trading Symbol: "CUQ"

Executive Offices

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Telephone: (403) 424-8230

April 16, 1993

Churchill

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